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Sale drains clients from Eberstadt

By Marci Baker

NEW YORK — Executives of pension funds with at least $800 million under management at Eberstadt Asset Management, acquired earlier this month by Alliance Capital Management, are planning to find new managers.

American Telephone & Telegraph Co. and Sperry Corp. pulled their accounts totaling almost $400 million before the deal was finalized, confirmed Dave Williams, Alliance's president.

Officials of Peoples Energy Corp., Chicago, confirmed they withdrew their $25 million bond account. J.P. Stevens & Co. Inc. reportedly pulled an account of an undisclosed size.

Several other clients, with about $400 million under management by Ebertstadt, likely will follow suit soon, sources said.

Indeed, some sources believe the outflow of business ultimately might exceed the $1 billion mark. A number of clients were undecided about what course to take just hours before the sale took effect. Given the short lead time, sources say, some clients might opt to assign their accounts to Alliance temporarily, and decide what to do with their accounts at a more leisurely pace.

Household International Inc., Prospect Heights, Ill., which hired Eberstadt earlier this year to manage a $10 million bond portfolio, is among those.

"We are in the midst of a transition on the fixed-income side and therefore our requirements right now are not stringent on style," said Jane Western, administrator of the company's $465 million retirement plan.

"So we have decided that, at least temporarily, we will leave our

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Late news

2 added for balanced

BOSTON — The $420 million Massachusetts Bay Transportation Authority Retirement Fund hired The Boston Co. Inc., Boston, and Lazard Freres Asset Management, New York, to manage balanced accounts, said John Gallahue Jr., executive director.

He said each manager will receive $38 million.

Continued on page 2

Pensions & Investment Age

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List includes PacTel, Motorola, Delaware state

Banner year for international hirings

By Rose Darby

NEW YORK — As the biggest year ever for international investment among U.S. pension funds draws to a close, four more funds have hired international managers, two state systems have awarded further assets to current managers and one pension plan is finalizing its choice.

The pension funds of Pacific Telesis Group, the state of Delaware, Pacific Lighting Corp. and Motorola Inc. have hired international money managers, while Dart & Kraft Inc. is finalizing a hiring.

Further, the states of Oregon and Alaska are making additional commitments to their managers.

"There's no question that it's been a gangbusters year for international investment, and it hasn't even been a great year for foreign markets," said Chris Nowakowski, president of InterSec Research Corp., an international consulting firm in Stamford, Conn.

He said the interest in international is surprising because pension funds are comfortably funded and increasingly are turning to terminations and dedicated and immunized bond portfolios.

"To think that in such an environment of shrinking cash flow, overseas commitments have grown from roughly $11.7 billion to $14 billion or $15.5 billion this year, says a lot," he added.

Mr. Nowakowski attributes the increase to acceptance of international investments among pension fund executives.

"The reality that not doing international should be an active omission, rather than one that hasn't been considered, is sinking in for pension sponsors," he explained.

"No one is saying that foreign investment is better than domestic, rather it is something that should be considered."

PacTel in San Francisco ultimately will receive more than $5 billion in assets from American Telephone & Telegraph Co.

Pension officials there reportedly have selected the fund's first two international equity managers. Verification of the choices could not be made either through the money managers or PacTel.

"We have defined international

Continued on page 71

Fund engineers railroad financing

By Joel Chernoff

MONTGOMERY, Ala. — The Retirement Systems of Alabama, expanding its investments in land, sea and air modes of transportation, has invested $50 million in a privately placed debt financing for nearly 1,300 railroad carriers.

The investment is the latest in a series for the $4 billion fund this year; the system has sought to lock in high interest rates in any quality vehicle it can get.

David Bronner

In June, the fund invested $600 million in a potpourri of debt instruments, including private placements, mortgage-backed securities and zero-coupon bonds (*Pensions & Investment Age*, Oct. 15).

Earlier this year, the fund provided $102 million in privately placed debt to help finance Delta Air Lines Inc.'s purchase of 33 new Boeing 737 jetliners.

Asked if the fund had plans to add shipping to its list of transportation investments, David Bronner, secretary-treasurer, responded, "We have a fishing fleet off the state of Washington."

That investment, made four or five years ago for several million dollars, is guaranteed under a program run by the National Marine Fisheries Services, a unit of the National Oceanic and Atmospheric Administration, he added.

"We just play in the strange stuff," commented Mr. Bronner. "If everybody's playing in the market, hopefully I've been there and left."

Mr. Bronner continues to mop up high interest rates with his "strange stuff" strategy. The $50

Continued on page 73

Photo courtesy of the Chicago Symphony Orchestra

Sir Georg Solti conducts the Chicago Symphony Orchestra, which raised more than $30,000 in a recent "pension fund concert." Proceeds from the semiannual concerts are contributed to the orchestra musicians' pension fund. See story on page 6.

Mellon, Citi spinoffs seen

By Kimberly Blanton and Marci Baker

Mellon Bank and Citibank likely will form separate subsidiaries for their institutional investment management groups sometime in 1985.

Their tentative plans to remove the investment professionals from the bank hierarchy and promote what one bank executive described as an "entrepreneurial spirit" are the latest in a rash of bank spinoffs.

The Bank of New England, Boston, just announced it would establish Beacon Asset Management Inc.

There is some indication banks are setting up subsidiaries not only in response to competition from independent investment firms, but also to meet increased competition within their own ranks.

Both Mellon and Citibank are planning investment spinoffs in the wake of significant changes in top management.

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Sacramento, Calif.

California ups lending program

By Steve Hemmerick

SACRAMENTO, Calif. — The $24 billion California Public Employees' Retirement System intends to make $3 billion to $4 billion more in securities available for lending in a market some think already is overcrowded with willing lenders.

First Interstate Portfolio Lending Service, Los Angeles, which has been seeking primarily public fund clients, has been chosen to do the additional lending for the California fund.

Rick Moos, president of the lending service, disputes the idea that the expanded amount of lending will have much impact in a market where he estimates billions of dollars in securities are lent daily.

"Each day, borrowers (of securities) don't fulfill all their needs," said Mr. Moos. He agrees, however, that the income derived from many trades has narrowed "tremendously," in part because many lenders are trying to lend the same type of securities.

Continued on page 74

W. Allen Reed to succeed Gary Helms as director

Hughes recruits from manager ranks

By Steve Hemmerick

CULVER CITY, Calif. — Hughes Aircraft Co. has gone to the ranks of money managers to find a new director of its $3 billion employee benefits program.

W. Allen Reed, a portfolio manager with Allen & Associates Investment Management Inc., Atlanta, has been hired to succeed Gary Helms.

Mr. Helms quit as staff vice president-investment management for Hughes in May to re-enter money management, setting up a branch office in Los Angeles for Eberstadt Asset Management. Before joining Hughes, Mr. Helms had been with the brokerage firm Loeb Rhodes.

Prior to joining Allen & Associates, where he worked for about two years, Mr. Reed had been responsible for pension assets at Delta Air Lines Inc., Atlanta.

Allen & Associates has about $167 million under management, according to the 1984 Money Market Directory.

The significant amount of assets that Hughes manages in-house apparently is part of the reason for the emphasis on money management ability. Thomas V. Keene, Hughes' senior vice president for finance, would not disclose the amount managed in-house.

Hughes' pension fund has more than $2 billion in assets, and a large part of that has been invested in stocks. As of Sept. 30, 1983, Hughes had 75% of its pension assets in stocks and 6% in bonds. Mr. Keene said Mr. Reed's primary emphasis at Allen & Associates had been in equities. He said Hughes' outside and in-house equity managers are allowed to augment stock and cash holdings with bonds.

In addition, a significant portion of the fixed-income assets of the less than $1 billion employees' savings plan is run in-house. The job also involves supervising a number of outside managers, including international and real estate managers, and investing in venture capital partnerships.

Mr. Keene said Mr. Reed was hired because of his qualifications, and said Mr. Reed came "highly recommended." "I am delighted he will be with us," Mr. Keene added.

According to sources, one key member of Hughes' investment staff left just before and one just after Mr. Helms announced his resignation. Both departures reportedly were unrelated to Mr. Helms' decision. Replacing the staff reportedly was held up until Mr. Helms' successor could be named. Mr. Keene said some more investment staff hirings could be expected.

The man Mr. Helms replaced at Hughes, John Crowl, helped set up a money management firm, Olympic Capital Management, Seattle.

A member of the Hughes investment staff, Shelly Grudin, a senior portfolio manager, came from Webster Management Corp., New York. Other Hughes investment staff members include Celia Chapman, who manages the in-house technology fund, and Michael Wutery, responsible for venture capital and real estate. ■

Oklahoma public fund hires out-of-state firm

By Fred Williams

OKLAHOMA CITY — The Oklahoma Public Employees' Retirement System has become the only Oklahoma state fund to hire an out-of-state money manager under a new bidding process.

Wright Investors' Service, Bridgeport, Conn., was hired to run a $120 million portfolio for the nearly $700 million fund. The pension plan also gave First Investment Management Corp., the investment arm of First National Bank and Trust of Oklahoma City, $420 million, and Bank of Oklahoma, Tulsa, $120 million. All will manage balanced accounts.

First Investment Management previously had run the entire account, said Rex Privett, the fund's executive director.

The Oklahoma public employees' fund is the last of the five state pension plans to comply with a controversial competitive bidding process mandated by a 1983 attorney general's opinion.

The selection procedure became a source of sensitivity among the various public pension fund executives and boards of trustees during the summer, when all non-Oklahoma managers of the other funds were terminated in favor of in-state managers during the bidding process.

Some felt the purchasing office in the state Office of Public Affairs, which handled the bids, might have usurped some of the fiduciary responsibilities traditionally exercised by the various pension boards of trustees.

Some investment managers and pension fund executives also felt the Office of Public Affairs might have shown too much bias toward money managers located in the state of Oklahoma (*Pensions & Investment Age*, July 9) and relied on low bidders, rather than on performance and professional standards.

The public employees' plan delayed complying with the bidding process by filing for an extension with the Department of Public Affairs.

Mr. Privett said bids on the public employees' account ranged from the 5.5 basis points by First Investment Management to the 14.5 basis points by Wright Investors.

He said the Office of Public Affairs used the bid specifications developed by the public employees' fund in conjunction with First National Bank and Trust, acting as its consultant, in awarding the contracts to the successful bidders.

Continued on page 73

Late news

Continued from page 1

The two firms were hired to replace Fort Hill Investors Management Corp., Boston, he added.

DOL funding study

WASHINGTON — Multiemployer pension plans were better funded than single-employer plans in 1979, according to a new study by the Department of Labor.

The study, which was based on annual report data and collective bargaining agreements, found that, on average, multiemployer plans had assets to fund 90% of the value of vested benefits, compared with 84% for single-employer plans.

Kausch to join firm

CHICAGO — Ralph Kausch, who will retire as executive director of the Illinois Municipal Employees Retirement Fund, will join Manufacturers Hanover Investment Corp. as its West Coast marketing representative to public pension funds.

Mr. Kausch, whose retirement will become effective Dec. 21, will move to San Diego and handle marketing of fixed-income and equity investments starting next year. Robert Cusma, former executive secretary of the Pennsylvania State Employees Retirement System, will replace Mr. Kausch (*Pensions & Investment Age*, Oct. 1).

DOL stock concerns

WASHINGTON — Stock to be acquired by Raymond International Inc.'s proposed employee stock ownership plan and thrift plan might be undervalued, the Department of Labor has told Raymond's lawyers.

A recently released letter from the department raised concerns about the long-term relative value of Class A common stock (to be acquired by the ESOP) to Class B shares, which will be owned by Raymond management and Kelso & Co., the investment banker that arranged the leveraged buy-out.

In regard to senior preferred stock to be bought by the thrift plan, the Labor Department said the rate of return was lower than would have been negotiated at "arm's length." The agency suggested adding equity features.

Overseas firms hired

TORONTO — Canadian Pacific Ltd., which has more than $2.5 billion in assets, made its first commitment to investments outside North America.

G.H. Cloutier, assistant vice president-pension investments, said Canadian Pacific allotted $4 million apiece to Morgan Grenfell Investment Services Ltd., New York, and Fidelity Management & Research Co., Boston.

Both were hired last spring; but Canadian Pacific delayed giving them any money until this month (*Pensions & Investment Age*, April 2). He said the managers will invest the $8 million in non-North American stocks.

Further allocations also depend on CP's U.S. investments. By law, Canadian pension funds can invest only 10% of their assets outside Canada.

"That's why I gave them only $4 million each," Mr. Cloutier said of the two managers. "I'm getting close to the legal limit."

The rest of the fund's assets are invested in-house in Canadian investment vehicles and U.S. equities, except for $15 million invested in U.S. equities by Massachusetts Financial Services Co., its only other outside manager.

Miller to Phoenix fund

PHOENIX — David Miller will become retirement program administrator of the $175 million Phoenix City Employees Retirement System Dec. 3. He replaces Patricia Cochran, who resigned in July. He had been a consultant to pension funds out of Scottsdale.

Telzrow joins Alliance

DALLAS — Dennis Telzrow has joined Alliance Capital Management Corp., Dallas, as vice president and portfolio manager. He had been associate director of pension investments at Diamond Shamrock Corp. for the past four years.

FASB benefit footnote

STAMFORD, Conn. — Companies' financial statements will have to include a description of health care and life insurance benefits provided for retirees, under a rule adopted by the Financial Accounting Standards Board.

The new standard affects periods ending after Dec. 15 for U.S. and foreign plans. If data for foreign plans is not available in time, the rule will not affect financial statements for periods ending before June 15, 1985. Also, contributions to multiemployer plans are not covered by the standard.

In their footnotes, employers will have to describe retiree benefits and employee groups covered, disclose the cost for the period, and explain accounting and funding policies for the benefits.

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PIPER

The statistical data is extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation service published by Pensions & Investment Age. *PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.*

1984 returns down for special equity

STAMFORD, Conn. — Special equity funds that flew high above the market indexes in 1983 have bumped along below them so far this year.

For the third quarter, the median bank and insurance company pooled special equity fund was up 5.9%, compared with a gain of 9.7% for the Standard & Poor's 500 index.

For the 12 months ended Sept. 30, the median special equity fund returned -5.7. The 108 special equity funds are tracked by Rogers, Casey & Barksdale, Stamford, Conn., and reported in Pensions & Investments' Performance Evaluation Report.

The top funds for the latest quarter were RepublicBank Dallas' $5 million Select Equity fund and Fidelity Management Trust Co.'s $266 million aggressive equity fund. Both were up 11.3% for the quarter.

RepublicBank's fund also was the top performer for the 12 months ended Sept. 30, when it was up 21%.

Ben Fisher, vice president and portfolio manager for the RepublicBank fund, said it is a relatively undiversified fund that typically holds only a few stocks that are unappreciated by Wall Street analysts.

One example he cited was **Orion Pictures**, which, he said, was not liked very much by the analysts. However, the film producer had three movies in circulation that were doing better than expected: "The Woman in Red," "Amadeus" and "The Terminator." Most analysts had missed this, he said.

Further, Mr. Fisher said, Orion looked likely to do well in the Christmas season with "The Cotton Club." "It's an expensive movie, but they've limited their exposure well," Mr. Fisher said.

Another unpopular stock Mr. Fisher owns is **Wheeling-Pittsburgh Steel** which he said he bought because the current price is only one third of book value.

Not all of Mr. Fisher's current portfolio of seven stocks are unpopular or troubled. **American Bankers Life** is a well-run insurance company that has been overlooked, Mr. Fisher said.

In PIPER, third for the quarter was Prudential Insurance Co.'s $990 million PRIFORM, which was up 10.9%. PRIFORM also ranked third for the 12 months, with a gain of 9.4%.

Interestingly, PRIFORM received negative publicity earlier in 1984 because of its investment in **Continental Illinois National Bank & Trust Co. of Chicago** stock.

PRIFORM's investment approach is to buy the 100 S&P 500 stocks with the lowest price/earnings ratios.

Real estate returns 45
Real estate returns 46
Top international funds 35
Top special equity funds 30

Roger Ford, managing director of Prudential Equity Management Associates, said that typically a lot of low P/E stocks have negative news associated with them, and sometimes the P/E is carried lower than the stock deserves.

Mr. Ford noted "the portfolio is quite diversified and the few negative experiences, such as Continental Illinois, have been more than offset by stocks which have outperformed the market."

The winners in the portfolio so far this year have been the **Continental Group**, **May Department Stores Co.** and several food companies such as **Carnation Co.**, **Nabisco Brands Inc.** and **Quaker Oats Co.**

The second best return for the 12-month period was Continental National Bank of Texas' Total Return fund, which was up 14%.

Frank Ganucheau III, senior vice president at the bank, said lately he is finding more things to sell than to buy. "The price-to-book value ratio today is pretty high for many companies," he said. "The true low P/E stocks are not there."

Like Prudential's PRIFORM, Mr. Ganucheau's fund is a low P/E multiple fund. "But we don't just buy low P/E," he said. "We try to look at the companies as businesses and try to buy pieces of businesses."

Continued on page 32

Strong dollar buoys international funds

By Rose Darby

NEW YORK — International money managers whose strategies involved a play on the strength of the U.S. dollar led in third quarter 1984 performance, according to the Pensions & Investments' Performance Evaluation Report.

Seventeen banks and insurance companies with 24 commingled funds were monitored by PIPER.

First Chicago Investment Advisors' $20 million international Dollar Fixed Fund, managed in London, was the premier performer for the quarter ended Sept. 30, with a 9.7% time-weighted total return.

Capital International's Europe Australia Far East index was up 6% for the quarter. The median PIPER fund for that period was up at 3.1%.

The First Chicago fund is a dollar-denominated bond fund with Eurodollars and yankee bonds that performed extremely well in the period, said Richard Carr, vice president.

"U.S. interest rates also came down, which led to bond market gains," he explained.

In addition, "because the fund is dollar denominated, we didn't suffer any currency loss and over that period, bonds performed better than equities in the U.S. and across the world," Mr. Carr said.

Second for the quarter was IDS Trust of Minneapolis. Its international collective equity fund had a 6.7% time-weighted total return.

Fidelity Management Trust's roughly $32 million International Equity Fund placed third for the quarter, with a 5.7% return.

Tied for fourth place were Mellon Bank's $13 million International Investment Fund and Prudential Life Insurance Co.'s $48 million global bond fund. Both had time-weighted total returns of 5.2% for the third quarter of 1984.

For the year ended Sept. 30, 1984, no fund outperformed the EAFE index, which had a time-weighted total return of 15.2%. The median fund for the same period returned 2.8%.

However, IDS Trust was on the EAFE's heels, with 15.1% for the year.

That $10.5 million equity fund is managed in London by Peter Lamaison of IDS-Gartmore International Inc.

Early in the third quarter, the fund's cash position — held in U.S. dollars — stood at 30%, said Mr. Lamaison.

"The month of July was pretty disastrous, and we had a significant cash position, which obviously helped us," he explained. "Then the EAFE went up 6% on the first of August and we got in very early, indeed, and we went back in at a modestly aggressive pace. In partic-

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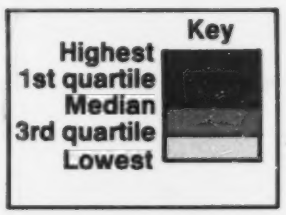
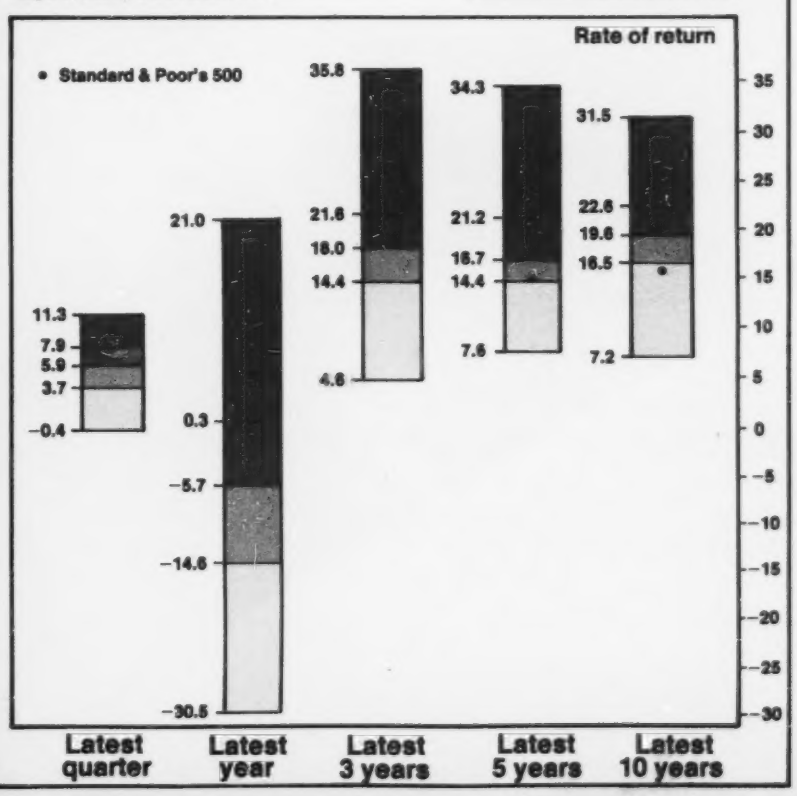
Pooled special equity funds of banks and insurance companies.

All periods ending September 30, 1984, and all figures, except latest quarter, are annualized total returns.

PIPER report compiled by Rogers, Casey & Barksdale Inc.

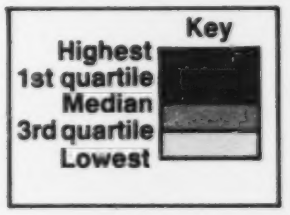


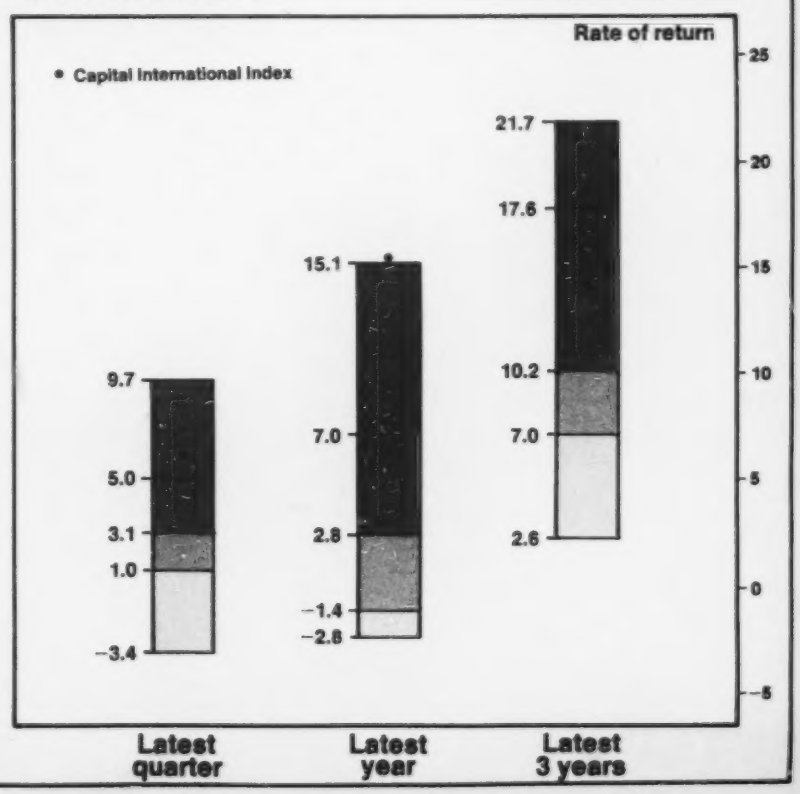


Pooled international funds of banks and insurance companies.

All periods ending September 30, 1984, and all figures, except latest quarter, are annualized total returns.

PIPER report compiled by Rogers, Casey & Barksdale Inc.





Top commingled special equity funds

3-month returns

	%
Republic Natl., Dallas	11.3
Fidelity Mgmt. Trust, Mass.	11.3
Prudential, N.J.	10.9
Trust Co. of Georgia	10.4
Merchants Natl., Pa.	10.3
Mellon Bank, Pa.	10.1
First Trust St. Paul	10.0
Mercantile Trust, Mo.	10.0
Standard & Poor's 500	**9.7**
First of Boston	9.6
Morgan Guaranty, N.Y.	9.5
American National, Minn.	9.5
Natl. Bank of Detroit	9.4
First of Chicago	9.2
First of Neenah, Wis.	8.8
First Pennsylvania Bank	8.6
Mid-State Bancorp, Pa.	8.5
United Virginia Bank	8.2
Shawmut Bank, Mass.	8.1
Wachovia Bank, N.C.	8.1
Manufacturers Hanover, N.Y.	8.1
Wachovia Bank, N.C.	7.9
HT Investors, R.I.	7.9
First Wisconsin Trust	7.9
Continental Natl., Texas	7.9
Seattle First Natl.	7.7
Sentry Life, Wis.	7.7
First of Neenah, Wis.	7.6
Prudential, N.J.	7.5
InterFirst Invt. Mgmt. Texas	7.5
Summit & Elizabeth, N.J.	7.3
Morgan Guaranty, N.Y.	7.3
Bank of Southwest, Texas	7.2
Chase Manhattan, N.Y.	7.2
Sovran Bank, Va.	7.1
American Fletcher, Ind.	7.0
Central Fid., Lynchburg	6.9
Trust Co. of Georgia	6.9
Trust Co. of the West	6.9
First of Boston, Mass.	6.6
AmeriTrust, Ohio	6.4
First of Maryland	6.2
Morgan Guaranty, N.Y.	6.0
Merchants National, Ala.	5.9
Oregon Bank	5.9

1-year returns

	%
Republic Natl., Dallas	21.0
Continental Natl., Texas	14.0
Prudential, N.J.	9.4
First of Boston	8.8
American National, Minn.	7.0
Natl. of Commerce, Tenn.	6.0
Shawmut Bank, Mass.	5.8
Mutual of New York	5.8
Standard & Poor's 500	4.7
Mutual of New York	4.7
Natl. Bank of Detroit	4.6
American Fletcher, Ind.	4.6
Wachovia Bank, N.C.	4.5
Provident Natl., Pa.	2.6
Mercantile Trust, Mo.	2.4
United Virginia Bank	2.3
Metropolitan Life, N.Y.	2.2
Manufacturers Hanover, N.Y.	2.2
Chase Manhattan, N.Y.	1.7
Merchants National, Ind.	1.5
Trust Co. of Georgia	1.4
First of Neenah, Wis.	1.0
First of Chicago	0.4
Manufacturers Hanover, N.Y.	−0.1
Pittsburgh National	−0.4
Oregon Bank	−0.4
Wachovia Bank, N.C.	−0.6
InterFirst Invt. Mgmt. Texas	−0.8
Old Second Natl., Ill.	−1.0
Chase Manhattan, N.Y.	−1.2
Fidelity Mgmt. Trust, Mass.	−1.4
Sentry Life, Wis.	−1.6
Mellon Bank, Pa.	−1.9
Bank of Southwest, Texas	−2.1
First of Maryland	−2.9
First of Neenah, Wis.	−3.1
First of Minneapolis	−3.2
Prudential, N.J.	−3.7
Morgan Guaranty, N.Y.	−3.9
First Pennsylvania Bank	−4.2
Sovran Bank, Va.	−4.3
Trust Co. of Georgia	−4.4
Bank of New York	−4.8
Morgan Guaranty, N.Y.	−4.8
Chase Manhattan, N.Y.	−5.6
Central Fid., Lynchburg	−5.7
Connecticut Bank & Trust	−5.7

3-year returns

	%
Security Pacific, Calif.	35.8
Provident National, Pa.	27.4
California First Bank	27.1
Wachovia Bank, N.C.	26.3
Chase Manhattan, N.Y.	24.4
First Pennsylvania Bank	24.1
Natl. City, Cleveland	24.1

Strong dollar . . .

Continued from page 29

ular, we built up our positions in Japan again."

Most of the fund's success during the third quarter was because of "excellent stock picking in Japan," he said. However, the fund's strong performance going out longer term was due to the top-down approach employed to determine market weighting geographically, he added.

In second place for the year ended Sept. 30 was First Chicago Investment Advisor's Dollar Fixed Fund, with a time-weighted total return of 11.3%.

Third was Guaranty Trust Co., Toronto, Ontario. That $27 million international equity fund had a 10.6% return for the year.

Placing fourth was Bankers Trust's $50 million International Equity Fund, with a return of 9.8% for the period.

Fifth was Crocker National Bank's Foreign Equity Fund, with an 8.8% time-weighted total return for the year.

For the three years ended Sept. 30, First Chicago Investment Advisors again placed first, with a time-weighted compound annual total return of 21.7%.

The EAFE had a 14.3% return for the three-year period; the median fund returned 10.2%.

In second place for the three years was IDS Trust, with a 17.6% return. Bankers Trust took up third place with a 13.2% time-weighted total return.

(Not as many of the international funds had three- or five-year track records, because it is a relatively new investment field.)

Because of the small number of funds involved in the tally, three different types of funds have been monitored as one group: equity funds holding stocks of non-U.S. companies; non-dollar fixed-income funds investing in bonds and short-term instruments denominated in foreign currencies; and dollar-denominated fixed-income funds. ■

The Chase Partnership at work. From left: Fran Crimbly, Director—Trust Investments, Schering-Plough Corporation; Reuel Stanley, VP Chase; John Sweeney, VP Chase; Marjorie Jones, 2VP Chase.

Global Custody Performance Measurement

Mercantile at Dallas	23.9
Connecticut National Bank	23.6
First of Maryland	22.5
Connecticut Bank & Trust	22.4
Chase Manhattan, N.Y.	22.4
Natl. Bank of Detroit	22.3
First Trust St. Paul	22.2
First of Boston	22.1
Norwest Bank, Minn.	22.0
Chase Manhattan, N.Y.	21.7
First of Chicago	21.7
Prudential, N.J.	21.7
Manufacturers Hanover, N.Y.	21.6
Prudential, N.J.	21.1
Central Fid., Richmond	20.8
United Virginia Bank	20.7
Morgan Guaranty, N.Y.	20.2
Bank of New York	20.0
Equitable Life, N.Y.	19.7
Merchants National, Ala.	19.6
InterFirst Invt. Mgmt., Texas	19.5
Bankers Trust, N.Y.	19.3
Continental Illinois	18.9
Mutual of New York	18.7
Central Fid., Lynchburg	18.5
Standard & Poor's 500	**18.5**

5-year returns

	%
California First Bank	34.3
Mercantile at Dallas	26.8
Continental Illinois	25.4
Northern Central, Pa.	23.5
Merchants National, Ala.	23.0
Norwest Bank, Minn.	22.8
Bankers Trust, N.Y.	22.6
Connecticut Bank & Trust	22.1
First of Maryland	22.1
InterFirst Invt. Mgmt., Texas	21.9
Chase Manhattan, N.Y.	21.9
Provident National, Pa.	21.5
Bank of Southwest, Texas	21.2
Natl. City, Cleveland	21.2
Chase Manhattan, N.Y.	20.6
Bank of America, Calif.	20.3
Equitable Life, N.Y.	20.2
First Pennsylvania Bank	19.8
First Interstate of Nevada	19.3
First of Chicago	19.2
United Virginia Bank	19.2
Chase Manhattan, N.Y.	19.1
First Trust, St. Paul	17.6
Metropolitan Life, N.Y.	17.5
Prudential, N.J.	17.0
Morgan Guaranty, N.Y.	16.9
Manufacturers Hanover, N.Y.	16.7
Mutual of New York	14.8
Standard & Poor's 500	**14.5**

10-year returns

	%
Mercantile at Dallas	31.5
Equitable Bank, Md.	29.1
Bankers Trust, N.Y.	25.6
Chase Manhattan, N.Y.	25.5
Provident National, Pa.	23.8
Connecticut Bank & Trust	23.3
California First Bank	23.3
Bank of America, Calif.	22.7
Manufacturers Hanover, N.Y.	22.6
Morgan Guaranty, N.Y.	22.3
Equitable Life, N.Y.	22.2
Republic Natl., Dallas	21.8
AmeriTrust, Ohio	20.1
Continental Illinois	20.1
Irving Trust, N.Y.	19.9
InterFirst Invt. Mgmt., Texas	19.6
Natl. City, Cleveland	19.6
Standard & Poor's 500	**15.7**

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3-month returns

	%
First of Chicago	9.7
IDS Trust, Minn.	6.7
Capital International	**6.0**
Fidelity Mgmt. Trust, Mass.	5.7
Mellon Bank, Pa.	5.2
Prudential, N.J.	5.2
Republic Natl., Dallas	5.0
Bankers Trust, N.Y.	4.9
Centerre Trust, Mo.	4.6
American Security, D.C.	3.5
Bessemer Trust, N.Y.	3.5
First of Chicago	3.2
Guaranty Trust, N.Y.	3.1
Morgan Guaranty, N.Y.	2.4
Sovran Bank, Va.	2.4
HT Investors, R.I.	2.3
Crocker National, Calif.	2.3
Morgan Guaranty, N.Y.	1.3
Aetna Montagu, Conn.	1.0
Bank of America, Calif.	0.5
Prudential, N.J.	0.2
Prudential, N.J.	−1.3
Bank of America, Calif.	−3.2
First of Chicago	−3.2
Sovran Bank, Va.	−3.4

1-year returns

	%
Capital International	**15.2**
IDS Trust, Minn.	15.1
First of Chicago	11.3
Guaranty Trust, N.Y.	10.6
Bankers Trust, N.Y.	9.8
Crocker National, Calif.	8.8
Republic Natl., Dallas	7.0
Prudential, N.J.	6.9
Mellon Bank, Pa.	5.5
First of Chicago	5.1
Fidelity Mgmt. Trust, Mass.	4.9
American Security, D.C.	4.8
Aetna Montagu, Conn.	2.8
Sovran, Va.	2.3
Morgan Guaranty, N.Y.	0.7
Prudential, N.J.	0.0
Prudential, N.J.	−0.9
Bank of America, Calif.	−0.9
Morgan Guaranty, N.Y.	−1.4
First of Chicago	−1.5
Sovran, Va.	−2.0
Centerre Trust, Mo.	−2.1
HT Investors, R.I.	−2.2
Bank of America, Calif.	−2.7
Bessemer Trust, N.Y.	−2.8

3-year returns

	%
First of Chicago	21.7
IDS Trust, Minn.	17.6
Capital International	**14.3**
Bankers Trust, N.Y.	13.2
Morgan Guaranty, N.Y.	10.8
First Chicago	8.0
Bessemer Trust, N.Y.	7.3
Centerre Trust, Mo.	7.0
Crocker National, Calif.	2.6

5-year returns

	%
Capital International	**9.6**
Morgan Guaranty, N.Y.	9.5
First of Chicago	8.7
Morgan Guaranty, N.Y.	5.6

10-year returns

	%
Morgan Guaranty	16.9
First of Chicago	12.9

Pensions & Investment Age will review 1984 and look at the coming year in the Dec. 24 issue.

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2 Met Life pools take PIPER lead

NEW YORK — Metropolitan Life Insurance Co.'s two open-end real estate funds have moved to the top of the class from slow starts during their formative years, the Pensions & Investments' Performance Evaluation Report shows.

The funds have done so using a strategy of opportunism and moderate growth in total assets under management.

Fueled by the rehabilitation of a market-lagging regional shopping center, Metropolitan's equity pool for completed properties, the $100 million Tower Fund, had the best second quarter of the 40 reporting funds, at 7.3%.

The Tower Fund had the best year through June 1984, with a 24.4% return, followed by Metropolitan's older and larger developmental properties account, the $200 million Fund RE, with a 22.3% year.

Fund RE also is among the leaders of all open-end pools for three years (fifth with a 15.6% return), followed by the Tower Fund (15.2%). Fund RE remains strong for five years (fourth overall at 16.7%).

"We don't want to become what we now deem an index fund," John Emmanuel, Metropolitan assistant vice president, said about the Tower Fund.

That fund is Met Life's rough equivalent to Prudential's PRISA and Equitable's Separate Account #8, except it is much smaller (six pension fund clients) and younger (3 years old).

"We expect to do 150 to 200 basis points better than a jumbo fund with $1 billion and 100 properties."

The Tower Fund now holds 10 properties and likely will add five more worth $54 million by February.

While using a sell discipline to upgrade the fund, it will not own more than 75 properties. If after eight to 10 years it stops selling, distributions will be made back to clients.

Mr. Emmanuel estimated the fund could reach $750 million to $1 billion in six to eight years.

During the second quarter, Metropolitan made $4 million of improvements to Warwick Mall, a regional shopping center in Rhode Island that had been running second in its market.

Metropolitan found the average shopper was spending 40 minutes less than the national average in the mall. Its response was to put in new escalators, add a glass-enclosed elevator, more kiosks and common seating around a fast-food area and a new color scheme, among other touches.

The improvements brought an additional $2 million unrecognized gain to the fund, plus improved sales.

The 7.3% return breaks down to 3.4% income, 3.9% appreciation. Fixing up the mall was important,

Continued on page 45

7 guidelines for pension fund real estate investment, from the Mellon team.

Left to right: Theodore J. Moss, Jr., Vice President; Karin E. Shewer, Vice President; Robert L. Kinney, President; James T. Foran, Executive Vice President, Mellon Real Estate Investment Management Corporation.

Real estate investment can increase cash flows and asset growth while reducing portfolio volatility. For optimum performance, the portfolio must be designed with reference to the particular needs of your pension fund. Mellon's experienced Real Estate Investment Management Group has developed seven basic guidelines for pension fund investments. We've applied them successfully for major corporate and public pension fund clients for whom we manage over $500 million in real estate assets.

1. We design a real estate portfolio to meet your specific financial objectives and actuarial requirements.
2. We invest in both real estate equity and mortgage debt, as your objectives require. Interestingly, some of our clients find mortgage investments with their high returns and monthly cash flows to be the ideal fixed income alternative for funding current benefit payments.
3. We concentrate on investment-grade commercial and industrial real estate.
4. We emphasize current cash yields rather than staking the majority of your return on uncertain future appreciation.
5. For each individual client's portfolio we stress diversification by property type, location, and investment amount.
6. Our policy is to avoid hotels, fast-food operations, restaurants, and other management-intensive assets. We also avoid apartments with their potential rent control problems.
7. In general, our ongoing policy is to avoid highly specialized buildings which would not find a wide universe of users if existing tenants were to curtail their use.

This portfolio management approach gives you great flexibility to modify your investment policy in accordance with changing opportunities and market conditions. It also gives you the control that goes with distinct asset ownership—and your returns cannot be affected by other clients' liquidation decisions.

The collective fund alternative. For clients who require an even greater degree of diversification, or who are not in a position to make a major commitment of funds at this time, Mellon Bank sponsors closed-end real estate collective trust funds. The Mellon Real Estate Investment Management Group acts as investment adviser to these funds, applying the same basic real estate investment principles.

Unlike many collective funds, Mellon's have a fee structure tied to cash flow rather than to appraised values, so that fees directly reflect the performance of assets from an investor's viewpoint.

To find out how Mellon's management guidelines can work for you, call Bob Kinney, or Karin Shewer, at 212-702-4040, or write to them at Mellon Real Estate Investment Management Corporation, Mellon Financial Center, 551 Madison Avenue, New York, NY 10022.

Mellon Real Estate
Investment Management Corporation

Air rights . . .

Continued from page 41

Boston on the bay, leased the air rights from the MBTA for 99 years, then subleased them to the developers for the same period.

A more celebrated air rights development opened during the past two years in Boston: The $500 million Copley Place was built over the Massachusetts Turnpike — a more common occurrence compared to the MBTA case, Mr. Sayre said.

Mr. Sayre also said the precast concrete and glass structure, part of the North Quincy Office Park complex, is unique in another respect: "It's attractive," compared to the surrounding structures, he said.

The 200 Newport Ave. building has 3,200 square feet of retail space on the ground level and a three-story atrium lobby under a vaulted glass canopy. It's built in 22-foot columns and gives views of Boston, Quincy, the harbor and the countryside.

The developers said other office park space will be absorbed by the time 200 Newport Ave. becomes available next spring. The building brings the park to about 2 million square feet, and the absorption rate has averaged 200,000 square feet annually for 10 years. ■

2 pools . . .

Continued from page 44
because the $29.3 million property is more than a quarter of the fund and the largest holding in it.

In the third quarter, life gets better, Mr. Emmanuel said. In July, the fund scored a windfall on the sale of a small Silicon Valley industrial property in Malpitas, Calif.

Metropolitan bought the property in March 1982, for $5.4 million and sold it to Coldwell Bankers' seventh closed-end fund for $7.2 million, showing a 20.5% internal rate of return for 27 months of ownership, Mr. Emmanuel said. For the third quarter, the return was 11%, and 21.5% for the year to date, he said.

The 10-year-old Fund RE ranks low compared to the other eight funds its age or older: seventh, with an 11.7% annual return. It turned for the better in 1978, and except for a downturn in 1982, has been a good performer in the past five years.

The investment strategy is to get into joint ventures with Metropolitan's general account and developers in large properties, of an average size of $35 million. That's gotten Fund RE's $200 million, and its 24 pension clients, into pieces of 63 buildings. While this means added market and leasing risk, the fund invests in the properties on a cost basis, for 25% to 30% less than what the building would cost fully leased, Mr. Emmanuel said. ■

Mortgage . . .

Continued from page 41
open-end Multiemployer Property Trust Fund, which manages $180 million for 80 clients.

Kennedy took control of the land by purchasing it from the developer, Winpro Co. of Philadelphia, and leasing it back at a fixed rate for 33 years.

The land was bought to ensure the developer can't sell the property out from under the deal.

Mr. Wieneke said, on occasion, life insurance companies have set aside project money in forward commitments, only to have developers then secure a bullet loan from another source, leaving the original investor with no deal.

The building, a slender, mostly glass-faced structure at the corner of 15th and Ramstead, is topped out. The Philadelphia National Bank provided $38 million of construction debt to Winpro.

It will take 18 to 24 months to build, with an anticipated completion date of June 1985. It will hold 285,000 gross square feet, of which about 240,000 square feet is net rentable. All work on the project must be performed by union labor.

Upon completion, Kennedy will complete a forward commitment of $35 million to the developer, from which the land purchase price has been deducted.

Of the nearly $31 million balance put across then, $8 million will be put into escrow for tenant improvements and leasing commissions as tenants move in.

The take-out financing also includes a $2 million "rocket" — an incentive earn-out provision for the developer, to give Winpro the opportunity to justify certain projected leasing and net operating levels, such as rents of $28 per square foot.

Kennedy can make an offer to buy the building at 10 years, and it can't be sold before then. The developer has the option to syndicate his equity.

Kennedy does many forward commitments. "We find we get yields at least in today's marketplace better than current existing deals," Mr. Wieneke said. This is the adviser's first Philadelphia deal; others are in the works. ■

PIPER Open-end funds

These listings give the Pensions & Investments' Performance Evaluation Report open-end real estate fund results through the second quarter of 1984. Closed-end fund figures are on page 46.

3-month returns Top five returns

	%
Met Life Tower Fund	7.3
Massachusetts Mutual	5.1
Copley Real Estate	4.7
Phoenix Mutual	4.5
Corporate Property Investors	4.4

3-month returns Bottom five returns

	%
Chemical Bank	1.8
Seafirst Bank	1.8
Connecticut Mutual	1.5
Prudential's PRIMOR	1.5
Consumer price index	**0.8**
Prudential's MORISA	0.6

1-year returns Top five returns

	%
Met Life Tower Fund	24.4
Met Life Fund RE	22.3
Copley Real Estate	22.1
Equitable Account No. 8	19.0
Phoenix Mutual	18.4

1-year returns Bottom five returns

	%
Bank One (Ohio)	9.9
Republic National (Dallas)	9.7
Travelers	9.4
Citibank	9.3
Connecticut Mutual	6.9
Consumer price index	**4.3**

3-year returns Top five returns

	%
NCNB	17.9
J.P. Morgan	16.7
Phoenix Mutual	16.5
Chemical Bank	16.4
Met Life Fund RE	15.6

3-year returns Bottom five returns

	%
Third Nat'l. Nashville	10.7
Connecticut Mutual	10.6
Wachovia Bank	10.2
Travelers	9.3
Citibank	7.7
Consumer price index	**4.7**

5-year returns Top five returns

	%
J.P. Morgan	17.9
NCNB	17.2
Wachovia Bank	17.1
Met Life Fund RE	16.7
Chemical Bank	16.5

5-year returns Bottom five returns

	%
First of Boston	13.5
Wells Fargo	13.5
InterFirst	13.0
Bank of America	12.1
Crocker National	12.1
Travelers	11.9
Consumer price index	**7.5**

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Group saves . . .

Continued from page 41

24-month period, plus additional spin-off construction. The trade center already is 57% leased.

The foundation examined numerous proposals to make sure its financing was in compliance with ERISA, Mr. Schleisman said.

Sen. Storm, however, said he instigated the Labor Department inquiry because of his concern for the pension beneficiaries whose capital is at stake, about the viability and potential success of a project that has had a couple of false starts in its search for financing, and over who would buy out the pension fund interest if it came to that.

"I want to make sure the investment of the pension funds doesn't just push the project ahead to where we're going to have to have taxpayers take over," he said.

In late October, he sent the Labor Department a letter and documents. The department told Sen. Storm it would not step in until the staff report was completed; it did not indicate when that would be.

Mr. Schleisman said the idea for Minnesota's World Trade Center came from Gov. Rudy Perpich, who wanted a magnet for international markets in the state.

"Without the pension fund investment, the project would not have gone forward," said Mr. Schleisman. "There was no way to resuscitate it."

Sen. Storm agreed the pension funds saved the project, which originally had been depicted as one that would come out of the private sector.

The UDAG grant was not in the original plans. Sen. Storm wrote a letter to Housing and Urban Development Secretary Samuel Pierce urging the project not be approved. He said the grant request was turned down because St. Paul is a low-priority city for a grant based, in part, on criteria of unemployment and prevailing economy.

Also, St. Paul was reported to have significant federal housing grant dollars already, and skepticism existed on the ability of the developers to secure privately based financing.

"Then (the developers) scrambled and got the unions involved," Sen. Storm said.

Representatives of the foundation would not reveal which 11 of its 14-member union funds are involved, other than to say all but one of the major trades are represented.

"I think it would give them some adverse publicity" to identify the trade that is not involved, Mr. Schleisman said. Also, some contracts with the individual union funds are still in negotiation.

The board of trustees of the individual union funds are a mixture of management and membership, and the contractors and subcontractors who make up the management side don't get to work on every job.

"Not all trustees are willing to invest in specific projects, maybe because there's jealousy on who's going to get the work," Mr. Schleisman said. "They don't want to finance anything where one of their competitors is going to get work."

The foundation, which represents an asset pool of $400 million, is simply a forum for investing by the unions, Mr. Schleisman explained. Since its start in January 1983, the foundation has invested about $30 million in 20 projects, most of it in the form of interim construction financing. ■

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PIPER

Closed-end funds

3-month returns
Top five returns

	%
JMB I	6.7
Coldwell Banker I	4.6
Coldwell Banker III	2.8
Coldwell Banker IV	2.5
Coldwell Banker VII	2.3

Bottom five returns

	%
LaSalle Advisors	1.7
RREEF West IV	1.7
RREEF USA II	1.6
RREEF West I	1.6
RREEF Midamerica I	1.5
Coldwell Banker V	1.3
Consumer price index	0.8

1-year returns
Top five returns

	%
RREEF USA II	19.3
JMB I	18.9
LaSalle Advisors	17.5
RREEF West III	14.8
RREEF Midamerica II	13.6

Bottom five returns

	%
Coldwell Banker VI	10.2
Coldwell Banker III	9.4
Coldwell Banker VII	9.2
RREEF West IV	8.6
RREEF Midamerica I	6.9
Consumer price index	4.3

3-year returns

	%
JMB I	17.6
LaSalle Advisors	17.5
RREEF West I	15.8
RREEF West II	13.8
Coldwell Banker I	13.6
Coldwell Banker II	12.8
Coldwell Banker VI	12.3
Coldwell Banker IV	11.8
Coldwell Banker V	10.6
Coldwell Banker III	8.6
Consumer price index	4.7

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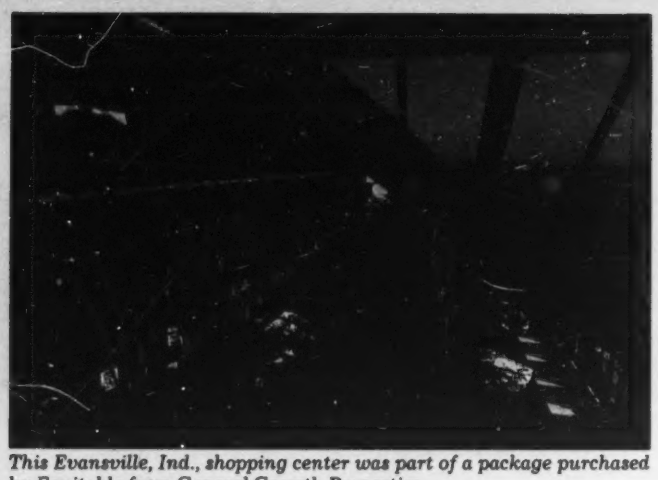

This Evansville, Ind., shopping center was part of a package purchased by Equitable from General Growth Properties.

California funds buy 97 buildings for cash

By Mark Westerbeck

NEW YORK — The two major California public pension funds have joined with Trammell Crow Co., the property development firm, to buy a diversified $315 million portfolio of commercial properties in the Pacific Northwest.

The California Public Employees' Retirement System and the California State Teachers' Retirement System each put up $150 million cash, and the Dallas-based developer put up the balance, to buy essentially the whole portfolio of Jack A. Benaroya Co., a Seattle development firm.

The transaction, completed Nov. 30, is unusual for its size and absence of debt.

The package was 97 buildings on 365 acres holding 8 million square feet of rentable space and 700 tenants in the Seattle metropolitan area and Portland, Ore. Included are five corporate parks, several office buildings, two retail properties and a major trade mart.

To meet the year-end sell deadline set by Benaroya Co., the deal required six months of intensive due diligence by the funds and their advisers, Equitable Real Estate Investment Management Inc. of Atlanta for the public employees' fund and Eastdil Realty Inc. of New York for the teachers' fund.

Douglas Sheldon, senior investment officer for real estate for the teachers' fund, said he hopes the deal dispelled the notion public funds can't act quickly on real estate decisions.

"It was a unique, landmark and gutsy thing to have taken this on and met the deadline," he said.

The Benaroya deal was part of a $1 billion day for Equitable. On Nov. 30, it also closed on the $705 million acquisition of 19 shopping centers from General Growth Properties, which included significant pension fund involvement.

Participants in the Seattle deal said Jack A. Benaroya, president of his firm and a well-known developer of industrial property in Seattle, sold his portfolio in anticipation of retirement. He reportedly will be retained as a consultant on the properties for a year.

The Crow firm — one of the nation's most prominent developers with more than $6 billion in realty

Continued on page 52

Late news

N.M. officials arrested

SANTA FE, N.M. — Deputy State Treasurer Ken Johnson and State Investment Officer Phil Troutman were arrested last week by the FBI on a federal charge of conspiring to extort $2,000 from Irving Trust Co., New York.

The two men managed state funds totaling more than $2 billion; including the State Permanent Fund, but excluding pension assets.

According to the affidavit, Mr. Johnson and Mr. Troutman told Irving Trust officers that if they wanted to do business with the state as a correspondent bank for the state's fiscal agent, the First National Bank of Albuquerque, they had to "ante up."

Mr. Johnson and Mr. Troutman suggested a $2,000 payment could

Continued on page 2

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$1 billion in 3rd quarter

Asset reversions soar

By Kimberly Blanton

WASHINGTON — Companies recaptured almost $1 billion by terminating pension plans with assets of $1.525 billion in the first three quarters of 1984.

The companies whose terminations are complete recaptured $972 million, or 63.7% of the assets of the terminated plans after buying annuities to cover the pension benefits of their employees.

This percentage of plan assets recovered in terminations is far higher than in previous years. For the same three quarters in 1983, companies recaptured only 44% of the $1 billion assets in the 89 plans they terminated in that period. For all of 1983, companies recouped on average 47% of the $1.555 billion assets in terminated plans.

At the end of the year, the portion of assets reverted shows signs of leveling off. The 72 companies seeking terminations pending Oct. 31 would together recoup another $795.7 million — 42.7% of their $1.9 billion pension assets.

In some cases, financial executives admitted that, for a variety of reasons, their pension plans were so well funded the temptation to terminate was too great. Those assets, they believed, could be better used to bolster the corporate financial position than to fatten pension coffers.

The Pension Benefit Guaranty Corp. made effective the termination of Grand Union Co.'s $22 million pension fund in March; more than half of that, $13.3 million, was returned to the company.

Harnischfeger Corp. recouped $38 million of its $74.7 million pension fund; Diamond International Corp. returned $65.9 million of its $116.8 million fund; Celanese Corp. recovered $325.8 million of a $430.8 million plan, according to a PBGC list of approved terminations obtained by *Pensions & Investment Age*.

The termination of The Great Atlantic & Pacific Tea Co. Inc. pension fund finally was made effective this year; the company recouped $272.9 million of its $355.1 million pension fund.

Companies with terminations still pending Oct. 31 include Peavy Co., which hopes to regain $20 million of its $48.8 million pension fund; GAF Corp., $18 million of a $82 million fund; Landmark Inc., $13.5 million of a $25 million fund; Lone Star Industries Inc., $42 million of a $102 million fund; Rexnord Inc., $25.3 million of a $72.3 million fund; and U.S. News & World Report, $17.7 million of a $32.7 million fund.

The Harnischfeger case illustrates the thinking behind recent terminations.

The Milwaukee company terminated its pension plan for salaried employees and returned more than half of the $74.7 million in the plan to the company to use as working capital, confirmed George Knight, general counsel.

Harnischfeger decided to terminate the plan, "because it was overfunded and we wanted to take out the excess assets," he said. The firm applied to the PBGC for the termination in early July, and it was effective Aug. 1.

Mr. Knight attributed his company's ability to recoup such a large part of the plan to several factors. Recession in the construction, mining and electrical equipment industry fell hard on Harnischfeger; it was forced to cut its employee numbers by half.

In two ways, high interest rates increased what Harnischfeger could get out of its plan.

First, investment income to the pension assets was "higher than anticipated," said Kenneth Keene, senior vice president of Johnson & Higgins, a consulting firm. Also, annuities cost less when interest rates are high, and Harnischfeger was able to provide for promised

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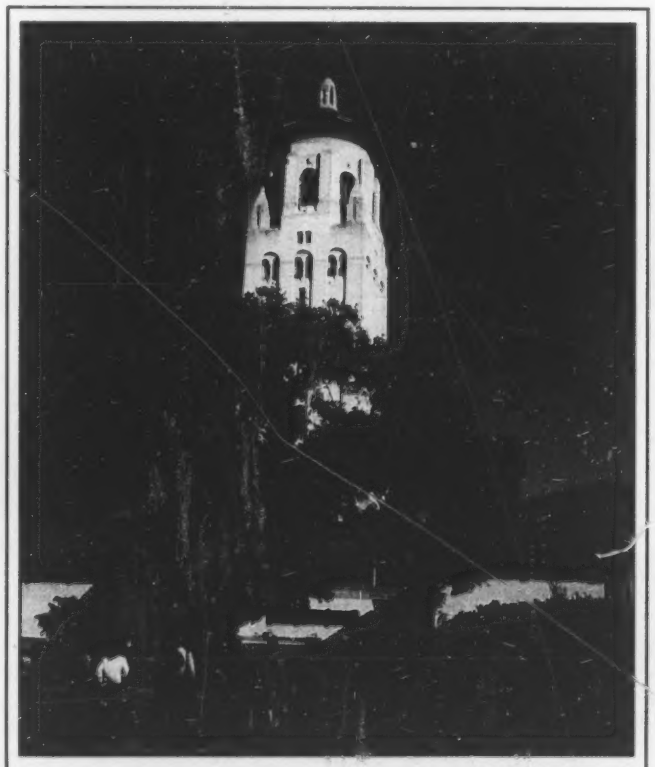

Photo by Steve Hammerick

Stanford University: With a goal of a 10% commitment, the university endowment is an enthusiastic investor in venture capital projects. About 8% of the $1 billion endowment is committed to the area. A special section on venture capital begins on page 13.

Ameritech dedicates $2.4 billion

By Barry B. Burr

CHICAGO — In its first pension investment move, American Information Technologies Corp. set up a $2.4 billion dedicated bond portfolio, probably the largest single dedication ever.

The dedication, regarded as a conservative investment strategy, will enable the $6.4 billion pension fund to pursue an aggressive course in investing the rest of its assets, said Donald W. Phillips, director of investment management.

Its other $4 billion "will be placed on a global perspective," he said. The fund will place perhaps half in domestic equities and the other half among venture capital, real estate and international investments, "which are the most inefficient (investments) and the ones which will give us the greatest return."

Ameritech used Goldman, Sachs & Co., New York, to execute the bond trades. They were done Dec. 3 in markets in London and the United States.

Mr. Phillips said the fund considered one other firm, Salomon Brothers Inc., to complete the trades. "But we didn't put it out to bid, which is popular now, as American Airlines did with First Boston."

"What gave Goldman, Sachs

Continued on page 52

Washington, Oregon may post $210 million

2 funds seek motel buy-out

By Steve Hemmerick

The Washington State Investment Board and the Oregon Public Employees' Retirement Association have agreed to put up as much as $210 million toward the purchase of a luxury motel chain, Red Lion Inn.

Other partners in the proposed buy-out include the New York investment firm Kohlberg, Kravis, Roberts & Co. and the management of the Vancouver, British Columbia, motel chain.

Terms of the purchase are being negotiated with two principals representing ownership of the chain, which has 52 inns in eight Western states. The total proposed purchase price hasn't been made public.

John Hitchman, executive director of the Washington board, said other investors now are beginning to make offers for the chain, and he isn't certain the deal will go through. But, he added, "I'm not writing this thing off."

Mr. Hitchman said he recommended "squeezing Oregon out" of the proposed deal, in part to obtain greater or complete control of the chain for the $5.4 billion Washington board and in part because Oregon's investments meetings are held in public.

A result, he said, has been to alert East Coast investment bankers to the deal.

A source with the Oregon fund commented, "They (Washington) tried to squeeze us out. That's great; we introduce them to the concept and they try to squeeze us out."

But James George, investment manager for the $4 billion Oregon fund, said it has been difficult trying to complete the deal in what he called "a goldfish bowl."

The Washington board is interested in the chain, Mr. Hitchman said, because it has "an outstanding operating record" with excellent locations and top management. If the deal is successful, which should be known by the end of the year, the present management will be retained, he said.

He also said the chain has been providing a "significant return," but he declined to specify the amount. Mr. Hitchman said the Washington board has agreed to spend $80 million to $160 million on the chain.

Mr. George said Oregon is willing to invest $35 million to $50 million "for stock" in the company.

No information was made available on whether Kohlberg, Kravis, Roberts would put up ready cash or would leverage its investment, and it is uncertain whether Red Lion's management would put up cash in the deal in addition to their service as managers of the inns.

Spokesmen for the Washington

Continued on page 51

6 pension plans join buy-out fund

By Rose Darby

NEW YORK — At least six pension funds will be partners in the first equity leveraged buy-out fund put together by Forstmann Little & Co.

General Electric Co. made the largest pension fund commitment — 20.2%. The other pension fund investors — GTE Corp., Hughes Aircraft Co., Minnesota Mining & Manufacturing Co., Sears Pension Trust and Texas Instruments Inc. — each made a 5.05% commitment.

Other partners in the $100 million fund include Standard Oil Co. (Indiana), 10.1%; Ivan F. Boesky, 5.05%; Lewis E. Lehrmann, 4.04%; Finabel America N.V. of Geneva, Switzerland, 5.05% stake; and Security Pacific Capital Corp., 5.05%.

In a related development, Forstmann Little has secured additional assets for a second subordinated debt and equity leveraged buy-out fund, according to Robert Johnston, president of Beacon Hill Financial Corp. in Boston.

This second subordinated debt and equity fund will be larger than the first, which was launched in mid-1983 and totaled $250 million when it was closed, explained Mr. Johnston. "It's strictly geared to large pension funds," he said.

While commitments already have been made to that larger fund, it still is open, he added.

In the equity fund, investments will be made in companies that are leaders in their industry and have heavy cash flows, said one pension fund executive whose fund had made a commitment.

The current slowdown in merger and acquisition activity was not an element in the pension fund's decision to invest because, "there are periods where investors get excited

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Lyon move spurs employee suit

By Barry B. Burr

CHICAGO — Three employees, part of a group seeking to acquire Lyon Metal Products Inc. through an ESOP, have filed a class-action suit seeking to stop the reversion of $12 million from a terminated pension plan from being used in another proposed leveraged buy-out of the company.

The suit states the pension plan's terms expressly dedicated Lyon's contributions "irrevocably" to paying benefits, made no provision for surplus pension assets to be returned to the company upon termination and "flatly prohibited any amendment which would divert trust assets to 'any purpose other than the purpose of this plan.' "

The reversion of the surplus to Lyon is "unlawful and wrongful," the suit contends.

Lyon, located in Montgomery, Ill., notified the Pension Benefit Guaranty Corp. of the termination (*Pensions & Investment Age*, Sept. 3). In the third quarter, it reported a $7.15 million gain from the reversion.

The three employees filed suit against Lyon, its directors and officers and the First National Bank of Chicago as custodian of the pension assets.

The employees' attorney, Myron M. Cherry of the Chicago law firm

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Questionnaires overdue

Nov. 30 was the deadline for returning questionnaires for *Pensions & Investment Age*'s annual directory of the Top 1,000 pension funds in the United States.

Fund executives who have not yet returned their completed questionnaires are urged to do so as soon as possible.

The survey, one of the most comprehensive breakdowns of pension fund assets, is used as a reference by pension fund executives, money managers and industry researchers throughout the year.

Not only does it track the growth in assets, the *P&I Age* directory also shows changes in the overall asset mix and money managers. It details pension fund use of such alternative investments as options and futures, index funds, real estate, international investments, oil and gas, venture capital, guaranteed investment contracts and dedicated or immunized portfolios.

Late news

Continued from page 1

be disguised as a contribution to the 1984 Western States Treasurers Conference, the affidavit said.

The charge is expected to be presented to a federal grand jury later this month.

Ruling on divestment

EUGENE, Ore. — An Oregon state court ruled that requiring the University of Oregon endowment fund to divest itself of $3 million in stocks of companies that do business in South Africa would violate the state's prudent-person rule.

The decision, believed to be the first made on the issue, knocks down a 1977 resolution by the state's Board of Higher Education.

Funds involved in LBO

NEW YORK — American Telephone & Telegraph Co. and Eastman Kodak Co. reportedly were the pension funds that provided $36 million for the $120 million leveraged buy-out of the Lincoln National Development Corp.

Ruling on LIRR due

NEW YORK — The Long Island Rail Road might pay as much as $800 million to two retirement plans if a federal judge rules the plans are subject to the Employee Retirement Income Security Act.

No ruling ever has been made on whether the LIRR's two plans are private plans subject to ERISA, or whether they became public plans when the company was taken over by the New York Metropolitan Transit Authority in 1966.

Damson cuts back

NEW YORK — Damson Oil Corp., an institutional and retail vendor of oil and gas income funds, has asked the head of its institutional division to resign and has laid off close to 10% of the work force.

Sources view the actions as a prelude to abandoning the institutional market.

Insiders say Damson executives asked Richard DeFelice, vice president of the institutional division, to leave, and reassigned three other division employees to other duties.

Commercial CMOs

NEW YORK — Salomon Brothers has structured the first collateralized mortgage obligation backed by mortgages on commercial property and rated by Standard & Poor's Corp.

The $204.8 million offering created securities from 85 seasoned commercial mortgages, originated by Penn Mutual Life Insurance Co. It carried a triple-A rating from S&P and was sold by Penn CMO Corp., a subsidiary of the insurer.

Spokesmen for Salomon said insurance companies were the primary buyers for the security. It was not known whether pension funds were involved.

Badger to leave post

NEW YORK — William Badger is leaving his post as third deputy comptroller of New York City, where he oversees the $20 billion New York City Employees Retirement Systems.

Mr. Badger is leaving at the end of the year. His replacement has not yet been named.

Inco to terminate plan

NEW YORK — Inco United States Inc. is planning to terminate its defined benefit pension plan, which had assets of $238 million as of Sept. 30.

The move will generate $75 million to $100 million for the company, which is a division of Toronto-based Inco Ltd., said Elliot Romm, director of employee benefits. A new defined benefit plan will be established.

Late money movers

• TULSA, Okla. — Reading & Bates Corp. has revamped its almost $28 million pension plan, hiring Meridian Management Co., Little Rock, Ark., and Northern Capital Management, Madison, Wis., as equity managers, said Tom Sims, director-human resources.

Each will manage 40% of the plan's assets starting Jan. 1. The remaining 20% will be run in a fixed-income account with Tulsa's Bank of Oklahoma, previously a balanced manager for Reading & Bates.

Balanced managers First National Bank & Trust Co. of Tulsa, and Liberty National Bank & Trust Co. of Oklahoma City, are being dropped. First National will remain trustee.

• MINEOLA, N.Y. — Long Island Lighting Co. has brought in Oppenheimer Capital Corp., New York, and Neuberger Berman Pension Management, New York, to run equity accounts for its $100 million pension plan, said Merritt Fable, assistant treasurer. MH Investment Counsel continues as balanced manager.

• CHICAGO — Morgan Stanley Inc., as named fiduciary of the Teamsters Central States, Southeast & Southwest Areas Pension Fund, dropped equity managers Forstmann Leff Associates Inc. and Century Capital Associates and distributed the assets among the fund's five other equity managers, said George W. Lehr, the fund's executive director.

The two firms had managed about $200 million.

Futures & options

Utility puts $42 million in index futures

By Barry B. Burr

AKRON, Ohio — Ohio Edison Co. has shifted 12% of its pension assets into a stock index futures fund at Bankers Trust Co., New York.

The move is Ohio Edison's first in futures, said Richard H. Marsh, pension investment administrator.

The money went into Bankers' liquid index futures trust, or LIFT.

In the process, Ohio Edison dropped an equity manager and shifted that manager's $42 million (12% of the company's $335 million in pension assets) to Bankers.

The Bankers commingled fund was started in July and now has about $120 million from more than five pension funds, including GTE Corp., said Steven A. Lauer, vice president.

Mr. Marsh said the move was made in the first or second week of November when Ohio Edison replaced the equity manager. "This is the first manager we out-and-out terminated," he added. Bankers had run the company's entire pension fund until 1982 when Ohio Edison hired five other managers to share the management with the New York bank.

Mr. Marsh wouldn't name the manager, attributing the dismissal to an inappropriate investment style and problems with performance.

Outside sources said the manager was Century Capital Associates. However, Century Capital would not comment.

Ohio Edison turned the manager's equity portfolio over to Bankers, its master trustee, and Bankers put the money into the futures fund as it sold off the stocks.

Mr. Marsh said the $42 million will remain in the futures fund until Ohio Edison selects another equity manager, which might take several months. He said Ennis Knupp & Gold, Chicago, is helping in the search.

Mr. Marsh hailed Bankers' LIFT as enabling Ohio Ed to make the transition, while maintaining its equity position through the futures.

Without the futures fund, he said, "We might not have had such a smooth transition."

"It very well meets a plan sponsor's need when you have this kind of thing (a dismissal)," Mr. Marsh said. "There are enough costs associated with manager searches."

Of Bankers' futures fund, he said, "It's very liquid, it's low cost, it's convenient and it's an easy way to stay in equities.

"We are using it as an index fund, not for speculating or hedging. If it tracks the (Standard & Poor's 500) index, we'll be happy."

Mr. Lauer said the Bankers fund, without any additional risk, closely replicates the returns of the S&P 500 stock index by investing in S&P 500 futures. It allows participants to withdraw from or add to their accounts daily, compared with the perhaps monthly liquidity of a traditional passive S&P 500 stock index fund. Plus, he said the transaction costs of buying and selling futures are about one-tenth of those of trading stocks.

One futures contract is worth $500 times each point of the S&P 500 futures index, an index tied to the value of the S&P 500 stock index. Thus, if the S&P futures index is at 170, the value of the contract is $85,000.

Buyers, however, put up only a small margin in Treasury bills, typically 3% to 6% of the value of the contract, or roughly $3,000 to $5,000.

The rest of an investor's money is placed in short-term cash equivalents, such as Treasury bills or money market funds.

Through the futures contracts, investors participate in the gains or losses of the S&P 500 stock index.

With the cash equivalents, investors generate income, as a substitute for the forgone dividends.

Like similar commingled futures funds, Bankers' fund typically buys the nearest-term S&P futures contracts. Then, as the three-month contracts mature, Bankers sells them and buys the next nearest maturity.

Although it is designed to track the S&P 500, Mr. Lauer said LIFT also will buy futures contracts based on the New York Stock Exchange index. He said Bankers hasn't yet bought any of the NYSE futures for the fund. ■

Notes

$270 million managed

SAN FRANCISCO — Illustrating the growing use of futures, Mellon Capital Management Corp. reports it now has $270 million under management for its various futures strategies.

The firm uses the strategies to enhance the returns of its stock index funds.

Firms unite on method

NEW YORK — Two money managers are combining their specialties to offer pension clients "a risk-taking strategy" by using futures and options to enhance the returns of conventional passive equity management.

Wilshire Associates, Los Angeles, will set up the stock index fund, while BEA Associates Inc., New York, will trade individual stock options or stock-index futures contracts.

The two call their approach passive investment enhancement.

The popular attractions of passive equity management — market returns and low management costs — are combined with active futures and options trading to provide the extra return, the firms said.

They expect the strategy to provide a return of at least 100 basis points, or one percentage point, over the market index the approach would track.

"This new strategy is not the usual risk hedging strategy of writing covered call options" or of using futures, they said.

"It is a controlled risk-taking strategy that makes use of the latent investment power of the assets held in the indexed account to enhance returns."

At BEA, Jeffrey A. Geller, vice president, added, "We're trying to deliver pure market returns plus arbitrage profits we can find by substituting futures and options."

For example, he said, instead of purchasing common stocks and holding them, as with conventional passive equity funds, BEA will buy futures or options when they offer the opportunity for profits over the stocks.

"If it makes sense to liquidate stocks and own the (underlying) call (option), we will do it," Mr.

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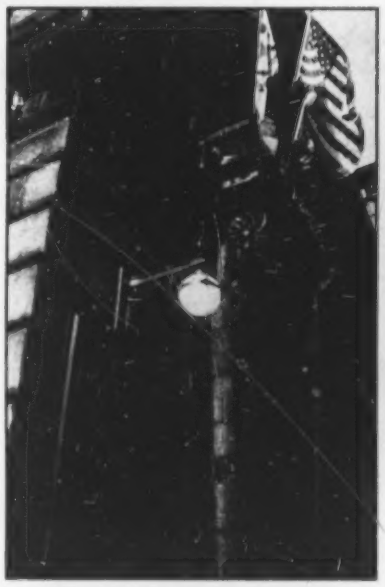

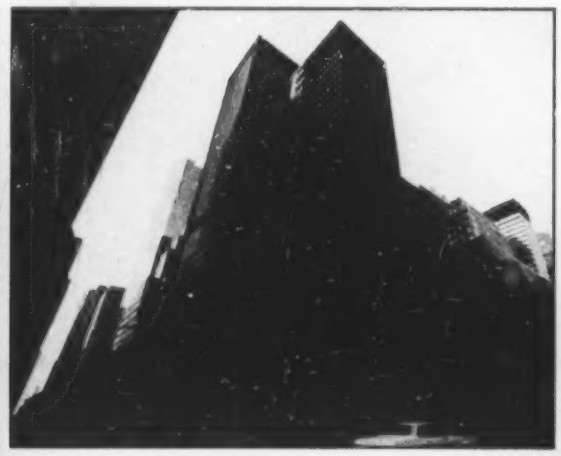

Northern Trust, left, has stopped accepting new clients for its S&P 500 futures fund; Bankers Trust, above, is reviewing requirements for its fund; and Chase Investors doesn't offer a stock index futures fund because of regulatory uncertainty.

Photos (center and right) by Arnie Adler.

Banks concerned about regulations

Growth of futures funds slows

By Barry B. Burr

CHICAGO — Concern about meeting regulatory requirements has caused The Northern Trust Co. here to stop accepting new pension fund clients for its Standard & Poor's 500 futures fund.

Bankers Trust Co., New York, is reviewing the regulatory requirements that apply to its S&P 500 futures fund, which has $120 million from about six pension funds.

Officials at State Street Bank & Trust Co. of Boston declined to comment about any regulatory issue regarding the State Street S&P 500 futures fund, which has about $165 million in pension assets.

William E. Gundy, a State Street vice president, said, "We're not in a position to make a comment. . . . As you know, a number of banks are having discussions over this."

The concern over regulatory requirements has slowed other bank trust departments from setting up similar commingled futures fund.

Northern, Bankers and State Street are believed to be the only three institutions offering such commingled futures funds to pension funds.

Northern had expected to have $100 million in its fund by year end, but the suspension of new accounts apparently will hinder that.

At Chase Investors Management Corp., Eric J. Seff, vice president, said the firm has no commingled futures fund because of the uncertainty over regulatory requirements. He said it manages only separate accounts for pension funds in S&P 500 futures.

Mr. Seff said, however, that Chase plans to establish such a commingled fund, but only after it believes it has satisfied any regulatory requirements. Mr. Seff believes commingled futures funds might have to comply with certain federal registration and reporting rules.

The concern involves primarily regulations of the Commodity Futures Trading Commission, the federal agency that oversees futures. CFTC officials were reluctant to comment on the futures funds.

The concern doesn't involve the use of stock-index and interest-rate futures by pension funds, or the returns or the propriety of the futures investment strategy employed by the trust departments. Under the Employee Retirement Income Security Act, pension funds operate under a "prudent person" rule, basically allowing any kind of investment.

Rather, the concern exhibited by Northern Trust, Bankers and Chase, among others, focuses mainly on whether the commingled futures funds have to register with the CFTC as commodity pool operators and comply with reporting requirements, or have to seek specific exemption from CFTC regulations.

At the Department of Labor's office of regulations and interpretations, John S. Hunter, employee benefit plan specialist, said ERISA's prudent person rule doesn't pre-empt other federal law.

Just as money managers investing in stocks for pension funds have to register with the Securities and Exchange Commission, he said, those using futures might have to comply with registration requirements of the CFTC.

According to the CFTC, no trust department offering such futures funds has registered as a commodity pool operator.

Two banks, Harris Trust & Savings Co., Chicago, in 1981, and Frank Russell Trust Co., Tacoma, Wash., in 1983, in requests concerning their use of futures for pension fund clients, received opinions from the CFTC that they are not commodity pool operators.

The opinions, however, aren't directly applicable to the current issue. Neither Harris nor Frank Russell offers futures funds like those at Northern, Bankers and State Street.

The rapidly growing use of financial futures by pension funds, in trading volume and in various investment strategies, has spurred debate over the extent futures regulations ought to apply to such institutional use as opposed to the regulators' longer standing oversight of users of traditional futures, such as farm commodities.

At Northern Trust, Timothy Ritchie, trust counsel, said, "After nine months of operation, we decided it was time to look at the

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